

Message Text

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ACTION EB-07

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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 4770

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E.O. 11652: N/A

TAGS: ETRD, KS, US

SUBJECT: PROBLEM INVOLVING CONSULTATION LEVEL QUOTA UNDER
ROKG-USG TEXTILE BILATERAL

SUMMARY. IN CONNECTION WITH PREPARING RESPONSE TO SENATOR ADLAI STEVENSON III CONCERNQNG ROKG-USG TEXTILE AGREEMENT-RELATED PROBLEM ENCOUNTERED BY CHICAGO, ILLINOIS FIRM OF MELCHER AND LANDAU, EMBASSY MADE COMMITMENT TO ROKG MINISTRY OF COMMERCE AND INDUSTRY (MCI) THAT IT WOULD BRING INCIDENT TO ATTENTION OF CONCERNED WASHINGTON AGENCIES AS EXAMPLE OF PROBLEM ROKG FACING WITH CURRENT QUOTA ON CATTGORY 229-COATS, NOT KNIT, AND WOULD RELAY REITERATION OF ROKG POSITION REGARDING CONSULTATION LEVELS. DETAILS ARE AS FOLLOWS:
END SUMMARY.

1. EMBASSY HAS RECEIVED LETTER FROM SENATOR STEVENSON REGARDING PROBLEM ENCOUNTERED BY MELCHER AND LANDAU WHICH PLACED ORDER FOR 12,792 DOZEN JACKETS, FALLING UNDER QUOTA CATEGORY 229, WITH KOREAN FIRM, SUNKYONG LIMITED. LETTER-O-CREDIT WAS OPENED IN JULY FOR SHIPMENTS IN NOVEMBER, DECEMBER 1975. SUNKYONG APPARENTLY ACCEPTED LARGER ALLOCATION OF OVERALL ROKG QUOTA IN QUOTA YEAR 1974-75 THAN IT COULD FULFILL WITH EXISTING PRODUCTION FACILITIES. FIRM FELL 15,000 DOZEN UNITS SHORT OF USING UP ITS ALLOCATION AT END OF QUOTA YEAR, DESPITE HAVING MOYE THAN SUFFICIENT ORDERS ON HAND.

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IN AN EFFORT TO TRY TO ENSURE MAXIMUM UTILIZATION OF TIGHT

QUOTAS, MCI LEVIES SEVERE, BUT STANDARD, PENALTIES ON FIRMS WHICH FAIL TO UTILIZE ALLOCATIONS THEY HAVE ACCEPTED. IN THIS INSTANCE, PENALTY REDUCED SUNKYONG'S 1975-76 ALLOCATION TO 20,000 DOZEN UNITS. AFTER USING 17,500 DOZEN UNITS OF THIS ALLOCATION TO COMPLETE OTHER OUTSTANDING ORDERS, SUNKYONG INFORMED MELCHER AND LANDAU THAT IT COULD NOT FILL LATTER'S ORDER BECAUSE OF SHARPLY REDUCED QUOTA ALLOCATION.

2. THRUST OF MELCHER AND LANDAU LETTER FORWARDED BY SENATOR STEVENSON WAS THAT SUNKYONG'S FAILURE TO FILL ORDER WAS RESULTING IN EXTREME HARDSHIP ON U.S. FIRM WHICH HAD ALREADY TAKEN ORDERS FROM ITS CUSTOMERS FOR THESE JACKETS. BY TIME EMBASSY RECEIVED LETTER PARTIAL SOLUTION HAD BEEN WORKED OUT WHEREBY SUNKYONG IS USING ITS REMAINING 2,500 DOZEN ALLOCATION PLUS 5,500 DOZEN IN ALLOCATIONS PURCHASED FROM OTHER FIRMS TO SHIP 8,000 DOZEN JACKETS. (ALLOCATIONS CAN LEGALLY BE TRANSFERRED BETWEEN FIRMS. WHILE FACT THIS NORMALLY INVOLVES SOME FORM OF PAYMENT IS NOT OFFICIALLY RECOGNIZED, IT APPARENTLY IS COMMON PRACTICE AND IS NOT ILLEGAL). MELCHER AND LANDAU HAVE INDICATED THAT IF 2,000 DOZEN ADDITIONAL JACKETS CAN BE SHIPPED THEY WILL BE WILLING CANCEL BALANCE OF ORDER. SUNKYONG CONTENTS THAT IT IS VERY DOUBTFUL IT WILL BE ABLE TO LOCATE ADDITIONAL 2,000 DOZEN ALLOCATION AS DEMAND UNDER THIS QUOTA IS VERY STRONG.

3. AFTER CONTACTING VARIOUS LOCAL PARTIES INVOLVED, EMBASSY RAISED PROBLEM WITH LIM, KYU CHANG, BUREAU OF TRADE AND COMMERCE, MCI, TO SEE IF MCI COULD OFFER ANY SOLUTION. LIM PREDICTABLY MADE OBVIOUS POINT THAT PROBLEM WOULD DISAPPEAR IF USG PROVIDED MORE GENEROUS QUOTA. HOWEVER, HE SAID WHAT HE REALLY WISHED TO EMPHASIZE WAS MORE GENERAL PRINCIPLE, AS PREVIOUSLY RAISED BY ROKG, THAT CONSULTATION LEVEL CATEGORIES SHOULD BE ACCORDED TREATMENT AT LEAST AS FLEXIBLE AS THAT GIVEN OTHER CATEGORIES. HE MAINTAINED THAT HAD THIS QUOTA BEEN CONTINUED AS A SPECIFIC LEVEL, ROKG WOULD HAVE EXPECTED IT TO RECEIVE ANNUAL INCREASES. IN AGREEING TO TRANSFER IT TO A CONSULTATION CATEGORY THEY HAD ASSUMED IT WOULD RECEIVE AT LEAST EQUAL, IF NOT BETTER TREATMENT.

4. RETURNING TO PARTICULAR CASE IN QUESTION, LIM SAID THAT
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MCI RECOGNIZED THAT FAILURE OF SUNKYONG TO MEET THIS OBLIGATION COULD DAMAGE REPUTATION OF KOREAN TEXTILE INDUSTRY IN GENERAL. HE MAINTAINED MCI HAS ALREADY ALLOCATED ENTIRE QUOTA (UNUSED ALLOCATIONS ARE RETURNED FOR REDISTRIBUTION ON APRIL 30) AND HE THOUGHT IT WOULD BE DIFFICULT FOR SUNKYONG TO FIND OTHER FIRMS WILLING TO SURRENDER ALLOCATIONS. UNDER THESE CIRCUMSTANCES, HOWEVER, HE PROMISED THAT MCI WOULD CONTACT SUNKYONG DIRECTLY AND STRONGLY URGE THAT IT SEEK OUT ALLOCATIONS

TO COMPLETE ENTIRE BALANCE OF ORDER. IN RETURN, HE ASKED THAT EMBASSY BRING INCIDENT TO ATTENTION WASHINGTON AGENCIES AND REITERATE ROKG POSITION ON TREATMENT OF CONSULTATION LEVELS.

5. EMBASSY RESPONDED TO SENATOR STEVENSON'S LETTER ON DECEMBER 24 DESCRIBING CURRENT STATUS AND FACT THAT MCI'S DIRECT INTEREST WOULD HELP PROMOTE SOLUTION IF ONE IS POSSIBLE. EMBASSY, AT SAME TIME, POINTED OUT THAT CURRENT LEVEL OF IMPORTS UNDER THIS CATEGORY ARE OF CONSIDERABLE CONCERN TO U.S. TEXTILE INDUSTRY. WE HAVE, OF COURSE, BEEN CAREFUL NOT TO SUGGEST THAT AN INCREASE IN THIS QUOTA, MIGHT BE POSSIBLE.
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